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Some steps to mobilize savings in Ethiopia's subsistence economy

Bekele Teguegne
Iowa State University

SOME STEPS TO MOBILIZE SAVINGS IN ETHIOPIA'S SUBSISTENCE ECONOMY

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Bekele Teguegne

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INTRODUCTION

The supply of savings to meet capital investment needs is one of the several factors necessary for economic development and growth. In large part studies of subsistence economies have focused attention on the lack or absence of savings in those economies, while the mobilization of savings already available seems to have been overlooked. The main objective of this study, therefore, is to explore and suggest measures for mobilizing the potential savings in Ethiopia's subsistence economy.

It should be noted that, taken as a function of income, the domestic supply of savings in a subsistence economy may not appear significant. While this view appears acceptable in theoretical or in relative terms, some recent empirical studies suggest that a substantial amount of savings exists in a subsistence economy. These empirical findings, however, fall short of giving conclusive statements because no definite measurements have been made other than some estimates from the national accounts of a few countries. Actual measurement of the potential savings of a subsistence economy would be hlepful not only as a reliable assessment of what is available for investment, but also to identify the major sources out of which savings could be tapped and channelled into productive uses.

With the foregoing considerations in mind, this study is presented in three parts. The first part will be devoted to a review of theoretical and empirical statements on savings in a subsistence economy. It is hoped that this review will throw some light on the determinants of savings in a subsistence economy as well as to identify the important factors which make savings abortive or unproductive. In the second part a static analytical framework will be constructed for the determination of the potential savings in Ethiopia's subsistence economy. The third part will be concerned with the role of an active financial market, together with related institutional considerations, as an instrument for the mobilization of the potential savings in Ethiopia.

In addition we wish to note that, in contrast to the detailed analytical work which a study of this nature involves, a great deal of attention has been devoted to non-economic considerations, such as cultural patterns of behavior and "other institutional constraints" (41b, p. 93). Cultivation of an awareness of these factors has been necessary because they bear a considerable influence on the course of economic development in general (12, p. 376) and on the mobilization of savings in particular. However, in the limited scope of this study, which focuses on the economic aspects of the determinants and mobilization of savings, it is assumed that these institutional and cultural factors remain fixed. Discussion of their implication must, therefore, be deferred to another study.

SUBSISTENCE ECONOMY AND SAVINGS: A REVIEW

In this review we shall attempt to clarify two interrelated inquiries about a subsistence economy and savings. First, what is meant by a subsistence economy, and second can savings arise in a subsistence economy? It is hoped that the answer to the first question will lead us to a better understanding of the "societal universe" (6, p. 21-23) to which our mind is supposed to respond when referring to an economy designated by a classificatory term such as subsistence. The second part of the inquiry will be concerned with an investigation into the theoreti-- cal grounds and empirical findings on the existence of savings in a subsistence economy. In doing so, the important factors or reasons which are believed to constrain the supply of savings in a subsistence economy may be brought to light as a preparatory step of how the potential savings in Ethiopia's subsistence economy could be mobilized and put into productive use. Clearly, the whole weight of this review, for that matter of this study, rests on the postulate that the availability of savings for the supply of investment capital is pragmatically necessary but not sufficient condition of economic progress (41a, p. 407). An implicit corollary of this postulate is that, if more effort could be exerted or if some effective device could be found, then the supply of investment capital could be increased leading to a more rapid development of a subsistence economy such as Ethiopia's.

The Meaning of Subsistence Economy

If approached under the guise of first defining and then seeing, subsistence economy may be characterized by the trite expression: "Living from hand to mouth." As it will turn out, such a notion appears to be based on mere conjecture or preconception. For instance, consider the general opinion formed with respect to a large part of the world as a result of an erroneous report on food shortages suffered by some countries in the early 1950's.

> "A lifetime of malnutrition and hunger is the lot of at least two-thirds of mankind." This extraordinary misstatement, which is in fact based on an arithmetic error, is believed by almost everyone, because they have heard it so often; people come to think that any statement which they have heard repeated frequently enough ... must be true....(8, p. 1)

Thus, no wonder that the answer which one might anticipate to a question such as "can savings arise in a subsistence economy?" could not be other than "No."

At the outset therefore we wish to state that, like most designatory or descriptive terms, the meaning of subsistence economy may be best understood if viewed as a rough way of categorizing human activities in different societies. To see this, it might be helpful to break down the compound term into its components and try to build up the idea associated with it as a whole. We will begin with what the well-known concept of an "economy" signifies, especially from the point of view of a national economy.

By an economy we are given to understand the process of production and exchange, or the sum total of human activity which is "relative to the whole complex of institutionalized value systems, and functions of a society and its subsystems" (37, p. 21-23). Considering the technical meaning of subsistence, we find that it suggests the extent to which any part or the whole of an economy uses resources in the production of alternative commodities for direct consumption rather than for the market. (18, p. 418-420). Any logical inference to be drawn from these explanations would lead us to no better understanding of subsistence economy unless supported by factual observations. As it now stands, subsistence economy may be taken to characterize either one or both of these situations: Since no explicit mention is made of the use of money as a medium of exchange, it could be taken to mean a barter economy; and/or unless the restriction of production for direct consumption is relaxed, it may refer to a "closed" system. The latter allusion, if drawn to the extreme, may even lead to the idea of self-sufficiency which, of course, is much further from the true meaning of the term. Recognizing the fact that "no" system or "society is perfectly integrated" (17b, p. 209) there appears little doubt that, in this day and age, most economies designated by subsistence have a monetized internal market and also take a part in world trade. Thus there appear a few more considerations before we settle with any sort of a vague interpretation of the meaning of subsistence economy.

As noted at the start, the term subsistence economy is a rough way of categorizing human activities in different societies. The objective of such classification should have been evident without much elaboration. Albeit, the core of the explanation for classifying economies under one designation or another lies in assessing or measuring up the position which a distinct system holds in its performance relative to others. Comparison of relative performance can as well be made with respect to a group of activities (industries or regions) within a system as between systems. Now, internal comparisons serve as indicators of the sources and uses (distribution) of resources within a system as marked by the differences in the rate of productivity, and in the structure of demand for the outputs of a group of activities (industries). The need for international comparisons arose from the interdependence between countries, or the rather impossible attainment of the so-called self-sufficiency. One of the major contributions of classical economists was the formulation of the law of comparative advantages by which the structure, direction, volume and gains in international trade could be determined (26, p. 87-90). As foreign trade expanded and the interdependence among countries grew intricate, particularly after industrialization brought marked advances in production by a few, then comparisons and classifications of economies grew complicated, too. The idea of classifying economies by "stages" of development for international comparisons, and by "sectors" for internal analysis, is said to have been systematized after the publication of Colin Clark's book, <u>The Conditions of Economic Progress</u> (54, p. 402-420).

Within the context of sector(s), and with reference to countries where traditional agriculture is considered to be still predominant, it is of interest to note that a recent study (41a, p. 555) in a footnote suggests four categories (stages) under which a subsistence economy could be classified. These are: (1) purely subsistence for direct consumption; (2) purely subsistence with a small production for the market; (3) production mostly for the market with some part for direct consumption; and (4) specialized production for the market.

The classification of human activities, involving "institutionalized value-systems" at the national level, is not as light a task as it might appear at first sight. Even though international comparisons are now made by such quantitative measurements as the level of per capita income and by factor proportions in the production processes, categorization of complex systems by relative stages of economic development is illusive. In today's world comparison of a complex set of institutionalized value-systems involves the separation of such fundamental ideas dealing with the "ideological, organizational, institutional, and motivational" (6, p. 57-89) forces that are at work within "the social process which really is an indivisible whole" (45, p. 1).

The lack of an all-embracing standardized term for relative stages of development has thus brought numerous designations in the literature. Among these, the ones in frequent use are terms like peasant, agrarian, traditional, backward, etc. The meaning of these terms may or may not vary with respect to the context in which they are used. But it can be safely generalized that they bear a close association with the term subsistence. The general context in which any one or all of these designations is or are used in the literature, mainly from the economist's standpoint, may be summarized as follows (17a, p. 55-58; 44, p. 25-33): (1) a general mode of behavior in which the pattern of decision or choice is more or less subordinate to the ritualistic dictates of custom or belief; (2) a level of activity comprising small-scale producers, primarily engaged in agriculture with relatively simple, non-industrial techniques or implements, and following long established routines; and (3) a settlement of population based on a "rural-urban antimony" showing interrelationships and dependence upon the existence of a market.

A comprehensive term which is inclusive of the various designations cited above had thus to be coined somehow. That term which has now gained almost universal use is "underdeveloped." True, there had been signs of hurt pride by those who had to bear the new label, and conscientious reservations by the experts or scholars who had to use it. This was due to the derogatory connotation of the term and the imprecise categorization of all countries irrespective of their diverse historical and cultural heritages (19, p. 6-8). Thanks to a gradual discovery of the double meaning of the term, however, much of the argument seems now to have subsided. That is, behind the use of the term "underdeveloped" there came the implication that such a country or economy does still have "certain potentialities" for further development (7, p. 24).

A comprehensive list and discussion of the characteristics of underdeveloped economies (aptly commended by Benjamin Higgins as "very difficult to improve") is to be found in Harvey Leibenstein's book, Economic Backwardness and Economic Growth (27, p. 38-45). More recently Dr. Clifton R. Wharton, Jr., has presented a chart showing the ten major characteristics of underdeveloped economies along a continuum of three development stages (53, p. 10-11). This chart, which is said to be a synthesis of three other models originated by three different joint-authors (Perkins-Witt, Johnston-Mellor, and Hill-Mosher), is presented here as the "Wharton Synthesis" with minor modifications.

Chart 1. The Wharton synthesis of the general characteristics and stages of agricultural development

General characteristics	Stages of development I Static	 II Transitional	 III Dynamic
1. General orientation to change (values, attitudes, motivations)	Negative or resistant		Positive or receptive
2. Goals of production	Family consumption and survival	Market orientation[a]	Income and net profit
3. Nature of decision making process	Arational or traditional		Rational or "choice-making"
4. Technology or state of arts	Static or traditional with no or slow innovation		Dynamic or rapid innovation
5. Degree of commercialization of farm outputs	Subsistence or semisubsistence	Specialized production for market[b]	Commercial
6. Degree of commercialization of farm inputs	Family and farm produce	Increased use of purchased resources[c]	Commercial
7. Factor proportions and rates of return	High labor/capital ratio; low labor return		Low labor/capital ratio; high labor return
8. Infrastructure institutions affecting or serving agriculture	Deficient and imperfect		Efficient and well developed
9. Availability of unused agricultural resources	Available		Unavailable
10. Share of agricultural sector in total economy	Large		Small

[a]Following Yudelman's categories of subsistence agriculture falling between (2) and (3) of his stages (See p. 7, this thesis).

[b]From Wharton's discussion which does not appear in his chart.

[c]Same as noted in (b).

The substance of our discussion on the meaning of subsistence economy may now be summarized as follows.

A noted authority on international economics points out that "countries can be classified from many points of view; geographical, political, economic" (26, p. 469). Evidently, the various forms of classification arose out of the unavoidable interdependence between countries, and were meant to give an approximation of the position a society enjoys relative to the material comfort of the rest of the world. As was pointed out, the classification of an economy, particularly at the national level, by a designatory term like subsistence fails to portray with full scope a subsystem which is inseparable from a complex whole of "institutionalized value systems." Consequently, we observed that the various economic classifications similar to subsistence tend to de-emphasize or obscure the potentials of an economy so designated for further development. Owing to the misleading nature of those designations we finally noted the evolution of a new term in the literature. That term is "underdeveloped," which, though still imprecise, serves as a compromise in that it is suggestive of both the lag in development and the possibilities for future progress.

Can Savings Arise in a Subsistence Economy?

The availability of savings in a subsistence economy has for long been treated with guarded pessimism. An example is the following statement by a well-known authority on economic development:

> In general, our answer to the question - ("How far can voluntary domestic savings go toward meeting capital requirements...in underdeveloped countries?") - seems to be, "Not very much." It is highly unlikely that measures to increase voluntary domestic savings alone...can provide all the financial resources needed for development of underdeveloped countries. At the same time, there is no reason to eschew measures which hold promise of bringing some increase in the flow of savings (19, pp. 480 and 491).

While the availability of domestic saving is overcast with such dim prospects, it is also the case that external sources cannot meet more than a fraction of the needs for capital. As outlined under the "Proposal for a Crucial Decade" of the 1960's by United Nations experts, the flow of foreign capital through private investment, bilateral and multilateral aid and loan programs will not meet the "absorptive capacity" of underdeveloped countries (50, p. 9-11). In the face of this shortage of capital, there is also urgent pressure to accelerate the pace of development in order to close the ever-widening gap between the living standards of the developed and underdeveloped countries. The gap in standards of living might have been considered of minor concern if viewed in absolute terms as a mere token of status or prestige. But it represents a real threat to survival when looked at from the point of view of (a) falling prices of primary commodities on the world market, (b) the attendant worsening in the terms of trade, and (c) the regional "integration and adoption of discriminatory practices" by the developed countries. All this has made the situation in underdeveloped countries far more difficult than if they had to cope with the shortage of savings for capital investment alone (10b, pp. 55-8). Albeit, while speaking in such a tone of disparagement, there is at least some solace in the lessons of history about what the majority of mankind can still aspire to achieve, for after all:

> ...Poverty has been the universal lot of man until our own day. No one asked fundamental questions about the state of affairs which everyone took for granted. The idea that the majority could have access to a little modest affluency is wholly new, the break-through of whole communities to national wealth totally unprecedented....In fact for over a thousand years, one of the great drives in Western economies was to open trade with the wealthier East (52b, p. 38-39).

Perhaps, an even more heartening prospect may be found in noting the considerable progress which has been achieved in establishing the basic foundations for further advance at least in some underdeveloped countries (7, p. 26).

The major reason for the pessimistic view of the kind noted in Higgins' observation has been explained by various "doctrines of peculiar barriers" to economic development (17a, pp. 36-52). Whereas the doctrine of peculiar barriers is said to have been first articulated in a paper by H. W. Singer, a more or less generalized statement is found in Nurkse's doctrine of "the vicious circle of poverty" (31, p. 319; 17a, p. 37).

In his prefatory exposition of the vicious circle of poverty, Nurkse has candidly summed it up in the trite proposition: "A country is poor because it is poor" (35, p. 4). As it were, Nurkse chose this remark to warn against the error that the doctrine of the vicious circle of poverty rests primarily on <u>a priori</u> selection of a low level of real income as the starting point of a deadlock entailing low savings, deficiency of capital, lack of effective demand, poor productivity, and back to low level of real income. In addition to the low level of income there are such important factors as "market imperfections" (internally) and "international forces" to be considered together with the vicious circle of poverty (31, pp. 315-333). The effects of the latter, i.e. international forces, on development have been mentioned earlier. Internal market imperfections are of paramount significance because they create considerable problems such as the immobility of resources, price inflexibility, ignorance of market conditions, rigid social structure, and lack of specialization which act as great impediments to progress. Furthermore, most of the authors who made suggestions for overcoming these barriers, among them Hirschman, Leibenstein, Rosenstein-Rodan, Rostow, Ranis, and Fei, (41b, pp. 3-20), have explored the basic behavioral assumptions on the relationship between income, consumption, saving and investment.

Although such a cursory review cannot provide a separate and satisfactory treatment of the works of these authors, with due justice both to their contributions and their critics, the following can be stated by way of summarizing the pros and cons in an all-inclusive manner. Inasmuch as the authors of the measures for overcoming the barriers are identified as being "Keynesians" even in ordinary thought, it will be convenient if not appropriate to treat them first under a light of the system upon which they are built. Later we will consider their major elements of common attribute and special concern.

There has been considerable argument as to the adequacy of the Keynesian system as a whole from both sides of the intellectual circle and the corps of experts working in the field. On the intellectual plane the disagreements have been by and large regarding internal mechanism or explanatory variables, the dynamism and especially the adaptability of the system to varying circumstances (1, p. 406-418). The system is open on all three of these counts but, for our purposes, it is only the last, i.e. adaptability, that deserves further attention. On the last point, experts testify that "experience has shown everywhere that there is no simple formula, no scientific model" when it comes to "the practical task of allocating resources to social development programmes" (51, p. 83). A great deal has been written in defense of the limitations of theory when it comes to practical task. Yet, frequently there arises a clash in basic assumptions or fundamental principles. For instance, we note a remark so compelling that could not be easily overlooked:..."Human behavior is so rich and has so many manifestations that it must always be studied under specific conditions" (24, p. 8). We then come to learn that "the anthropologists for two generations have been obsessed with the differences between peoples, neglecting the equally real similarities upon which the 'universal culture pattern' as well as the psychological similarities are clearly built" (20, p. 4). As bewildering as this kind of conflict may appear, ways have to be found to resolve it, and Benjamin Higgins has offered a settlement of the differences:

> The "Keynesian revolution" was not based on totally new assumptions regarding economic behavior or culture patterns; it simply selected a new system of strategic variables and indicated relations between them quite different from what had been previously accepted. This kind of revolution in economic thought is required as a basis for policies to develop underdeveloped countries (19, p. 444).

Going back to the basic elements that are common to the theories advanced by the various authors as alternative measures for breaking up the peculiar barriers, Hagen notes (17a, pp. 36-52) that: (1) they are more or less representative in the sense that other economic theories are also particular and subject to somewhat similar objections; (2) they all assume that capital formation is a central problem in development and growth; and (3) they all assume that "technological creativity" is a prerequisite for carrying out economic development. Of these common elements the first needs now no further comment. On the second element there is a degree of emphasis expressed by the various authors. For instance, in the preconditions for "take-off" Rostow appears to give equal consideration to people's attitude toward change, their receptivity to science and new methods, risk-bearing as much as the need for some minimum capital/output ratio (41a, pp. 3-43). Similarly Hirschman accents the need for reorganizing the decision-making units of society which serve as the catalyst or activating and bidning agents in the development process. In fact, at the outset of his theory on "unbalanced" growth, Hirschman states that "development depends not so much on finding optimal combinations for given resources and factors of production as on calling forth and enlisting for development purposes resources and abilities that are hidden, scattered, or badly utilized" (20, pp. 5 and 24-27).

There can be no exaggeration of the consideration given to the third element, i.e. technological creativity, not only in intellectual circles but also in the minds of practical executors of development plans (51, 64-101). It is worth noting that the idea of "technological creativity" derives its prominent role in development from Schumpter's theme of "a social climate" favorable to entrepreneurship. In summary it sets forth the centuries-old philosophical struggle, that is, to create and guarantee in a society an atmosphere of security and freedom of expression and association without which the fruits of individual and collective initiative, experimentation and creativity can never materialize (19, p. 137-143). Notice that "for Mill freedom of thought and investigation, freedom of discussion, and the freedom of self-controlled moral judgment and actions were goods in their own right" (41a, p. 708). But very often we tend to lose sight that these inassessable properties of life are reduced to an insignificant magnitude in many a subsistence economy, because of our preoccupation to calculate the worth of the discrete social assets that are handily determinable in quantitative measures:

> Officials of backward countries are prone to bewail the low propensity to save in their economies...and ascribe this to low per capita incomes. But it is often bad government as much as human poverty that is guilty. Fiscal irresponsibility leading to inflation, failure to protect people in their property, and corruption of tax collectors so that long-term investments are avoided, these are all to blame.
>
> [Above all] Many families save against bad crops, unemployment, and sickness or death, especially where social insurance schemes are lacking (41a, p. 371).

Speaking of the consequences on economic development and social progress due to the resistance towards change by the very persons at the helms of leadership, Barbara Ward strikes the nail right on its head: "Marx was very far from describing something which never was on sea or land" when he called the British Government of his day "the managing committee of the bourgeoisie. Look at certain governments in Latin America today." (52b, pp. 13-20). This is equally true for large parts of Asia and Africa.

Thus it is a foregone conclusion that the resistance to "change" not only by the masses of traditional societies but also by the leaders, forms one of the formidable barriers to economic development. To get at the substance of the matter that contributes to our effort here, we will pause a little and see why this should be so. Again Barbara Ward's analysis offers a lucid and concise account of what lies at the bottom.

In a historical precis of what brought unprecedented riches to some parts of the world Miss Ward identifies four revolutions which the prosperous societies experienced through the centuries (52a, pp. 14-36). These are: (1) the revolution of ideas which culminated in the gradual (now almost universal) acceptance of the equality of all men and "even nations"; (2) the revolution of material progress - i.e. the idea of "this worldliness, a change for a better world, not hereafter, but here and now"; (3) the biological and physical revolution mainly dealing with rising population and the discovery of more resources, and (4) the scientific and/or technological revolution. Pointing at the first and fourth revolutions as "most pervasive" of them all, Miss Ward proceeds with a distinction she attributes to the revolution of ideas: "This is hardly surprising, since our ideas are the prime movers of history. Revolutions always began with ideas, and it is by our ideas that we change the way we live, the way we organize society, the way we manipulate material things" (52a, p. 14). Canvassing that part of the world where the occurrence of these revolutions is still unobservable or lacking significance, she throws our thought back to the dilemma of the vicious circle of poverty with which we started out:

> ...It is simply a fact of human nature that you do not get what you do not want, and you do not work for what you cannot imagine...Wherever men and women still prefer status to economic achievement and store by traditional privilege and custom than by the risks and rigours of economic change, capital and science cannot act as full instruments of development, since the leaders [may] not only be ignorant of how to apply them. They will also have no wish to do so (52a, p. 87).

The last portion of Ward's statement adds something challenging to the commonly held view that people in traditional societies are ill-disposed towards change. True, the resistance to change is largely attributable to the low level of education and the lack of a general awareness of political rights. But, in some traditional societies people live in absolute submission to the will and desire of authoritarian leaders, some of whom hold absolute power through hereditary claims, still a few others through some guise of democratic means or popular support. Could it be well to think, then, that such people will be less disposed to follow any genuine programmes of reform, development and social advancement than they obey the arbitrary laws of their authoritarian rulers? If the answer is "no", it cannot be supported only by the economic costs of educating the people so as to change their attitudes from the old ways of living. The fact that the costs to society on programs of education and reform are not so heavy in contrast to the benefits has been explained by various authorities (41a, p. 107; 41b, pp. 418-432). The other non-economic considerations in such a bold undertaking as a reform of basic institutional structure are attached to a fear of the consequences of political repercussions. Apparently such a fear is often actually employed as a camouflage of the unwillingness of the rulers to relinquish a little bit of their power and to let the people share their responsibilities. To repeat what has been voiced by way of advice on how best and how rapidly development could be achieved:

> Beyond the purely economic aspects of growth lie social and political aspects. These are not merely relevant to the problem of economic development; what distinguishes them from other equally relevant forces is their decisive bearing on the process of economic change. As has been reiterated, the pace and fate of economic development are in the end determined by how profoundly and quickly the political and social environments change (41a, p. 41).

To come to our conclusion on savings in a subsistence economy, let us now sum up the foregoing with additional information on empirical findings as we go along. First on the a priori conclusion about savings being nearly zero in subsistence economies, Hagen wrote in an article published in 1957 (17a, 193-315), that it was partly a bias attributable to "ethnocentrism" as well as an error due to a misapprehension of the theoretical abstractions involved. On this view he is not now alone, particularly when considering the potential resources that are controlled by the very few hoarders and migrators (transferers) of wealth abroad (12, pp. 19-21; 31, pp. 321-22). In his recent book Hagen still pursues the thought he had begun in his earlier article:

> The soundness of this [vicious circle] hypothesis may seem axiomatic to a Westerner, for he may feel that at the level of income which he envisages in low-income countries he could not live much less save...
>
> In the light of present knowledge, perhaps the best summary statement about saving in low-income countries is this:...If sufficiently motivated the people...could and would choose to save enough to finance the investment necessary for raising per capita income (17a, pp. 37-40).

Second, two considerations remain about savings in a subsistence economy: (a) what assumptions can be made about savings in relation to income?; (b) in what form and/or to what extent can savings be expected to exist?

On the question of behavioral assumptions, we have the following observations from recent studies covered in our investigation. As it has been the case in drawing up development plans for under-developed countries, (50, p. 2) the information or data on which existing behavioral assumptions could be tested are said to be insufficient. Here are a few examples. Pending future empirical tests, Yang states that Duesenberry's hypothesis of the "demonstration effect" due to the interdependence between consumers' preferences in the same income brackets, may give a good fit of the expenditure pattern in traditional societies (41b, p. 77). Yang's report adds that:

> Consumption and saving among rural people...are predominantly influenced by the traditional pattern of life and culture. Rural communities in Asia have long tended to be stagnant.... Hence the preference for leisure over work and material improvement, and the great importance of prestige and the satisfaction attached to ceremonies accompanying deaths, births, and weddings. The strong propensity to hoard gold and jewellery is also a matter of tradition and custom, and is very difficult to break... (41b, p. 81).

Another study led by Firth and Yamey, which was based on anthropological findings, agrees closely with Yang's observation. The Firth-Yamey study indicates that "normally" saving is not a purely individual affair because "actual decisions about savings are often guided and shared by the general set of ideas and values about capital accumulation in the particular society" (12, pp. 25-26).

The possibility that Friedman's permanent income hypothesis may hold in these places appears to have no better chance of being tested on subsistence economies than Duesenberry's (8, p. 156). In a recent study of nine African countries (Mexico included for comparison), Abbai and Ligthart have reported that "savings depend on income and expenditure patterns, which are normally rather stable, and capital formation largely depends on the rather rigid investment opportunities." (41a, p. 28).

Finally, it will be noted that the dependence of consumption on the level of income does not seem to be conclusively established even for advanced economies where more data are available. Among other things, the effect of such factors as wealth especially in liquid assets (24, p. 167), and "Keynes' 'subjective factors'" (1, p. 288) are said to catch everyone's attention. On how this argument will be resolved, Ackley observes that the difficulty arises from separating quantifiable and unquantifiable factors which nonetheless bear considerable influence on consumer's behavior. He therefore acknowledges the need for further research. Meanwhile in the absence of any conclusive evidence of the determinants of saving other than income, he warns "not to go to the extreme opposite and reject altogether the Keynesian innovation" (1, p. 306).

We will now consider the form and amount in which savings are held in a subsistence economy. The reason for pointing at the form in which savings may be found is to get some indication of the functions they serve in these societies. As would be expected, Firth and Yamey have indicated that savings in subsistence economy could be found in their three functional forms (12, p. 134): (a) as productive assets, i.e. capital; (b) as a fund of investment, and (c) as a means of purchasing power or status, stored either in cash or in kind. The savings in kind usually consist of food grains, non-perishable fruits, livestock, coin money melted into jewelry, and land, mostly by wealthy landlords (3, 202-11; 12, p. 345). In Ethiopia, for instance, savings are held in the form of a considerable number of livestock by many peasants, and "traditionally persons with surplus cash burried [sic] it in the ground" (36a, p. 90). A preliminary survey of Southern Ethiopia reveals that in some localities individual holdings of over 100 head of cattle are not uncommon, with an average of 14 head of cattle per stockowner for that region (19c, p. 61). Unfortunately these studies could not provide the money equivalent of the amount of savings held in one form or the other. However, other studies largely based on national accounts, short-term plans, etc., provide estimates of savings, investment, and rates of growth for some selected countries. For our purposes two tables from two separate studies are presented here, with appropriate observations.

Table 1 shows the percentage distribution of "sectorial" contribution to the gross domestic product for the eight African countries referred to in Abbai-Ligthart report above (41a, p. 12). This table (though possibly not typical of other Asian and Latin American economies) may give a rough indication of the stage of development in a few African countries including Ethiopia.

Table 2 is part of a study on domestic savings made by Houthakker (41b, p. 221). The original table was made to represent samples of countries divided in five per capita income brackets. Since the upper two brackets had little relevance to our purpose they are not shown on Table 2. The period covered by Houthakker is roughly 1952-1959. Among other things, the following statement from the "Record of Discussion" may serve as an indicator of the precautions that are necessary in making conclusions based on such a finding:

> ...Professor Houthakker's findings...were based on some 28 countries....The data employed was [sic] in the form of the standardized national accounting framework devised by the United Nations; the very consistency of this framework, when applied to diverse economies may hide wide variations in the coverage of the statistics and the methods used to collect them (41b, pp. 224-225).

Perhaps what is more important, the discussion adds that "savings were often calculated as residuals, or were produced from direct estimates of investment expenditure." There is also a reminder that saving income ratios in these data make no account for differences in the distribution of incomes, or between sectors and the role of business incomes in the total particularly within countries. Houthakker's finding has one advantage in that it includes higher income groups within a country,[1] which after all account for a high percentage of savings in the total economy. For "the share of the national income going to the upper income groups and the share of property income in total income are probably more important determinants of the potential rate of savings" (7, p. 63).

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[1]The average saving in the III income group is even higher than those reported for countries in the I and II income-brackets which were 10.9% and 16.9% respectively. This difference arose from Japan's high rate of saving relative to a lower level of per capita income. This discrepancy has been stated to be possibly due to "differences" in attitude to thriftiness (41b, p. 225).

Table 1. "Sectorial" contribution to GNP for a sample of African countries[a,b]

Country	Agri- culture	Min- ing	Manufac- turing	Building and con- struction	(Percentages) Electric- ity, gas and water	Transport and commu- nication	Com- merce	Ser- vices
Ethiopia	62	0	2	3	0.2	5	13	15
Guinea	48	2	2	8	0.7	24		16
Nigeria	63	1	2	11	0	15		8
Cameroun	49	3	5	3	0.0	6	26	8
Ghana	60-65	4	3	4	0.3	24-29		
Congo (Leopoldville)	31	16	10	4	-[c]	9	7	23
Kenya	42	1	10	4	1.0	8	13	21
Rhodesian Federation	20	14	12	8	2.3	6	16	22
Mexico[d]	20	4	18	2	0.5	4	31	20

[a]Source: Abbai and Ligthart (41a, p. 12).

[b]Period (year) not specified; indications are for late 1950's.

[c]Included in mining and manufacturing.

[d]Included for comparative purposes.

Table 2. Per capita domestic saving[a] (in U.S. dollars of 1955 at official exchange rate)[b]

Bracket and country[c]		Weight[d]	National income	Domestic saving	Saving/income ratio (%)	Group mean Unweighted	Group mean Weighted
	Malta	2	307.3	54.0	19.3		
	Panama	6	303.2	-1.0	-0.3		
	Costa Rica	7	269.0	35.2	13.1		
III	Spain	116	255.8	28.7	11.2	12.2	21.2
	Jamaica	11	247.6	23.4	9.5		
	Greece	56	233.4	18.2	7.8		
	Japan	629	228.2	56.4	24.7		
	Mauritius	3	225.3	40.9	8.1		
	Columbia	1	212.8	23.5	11.1		
	Chile	49	209.2	1.7	0.8		
IV	Portugal	62	182.3	15.7	8.6	10.2	11.0
	Honduras	10	168.4	15.9	9.5		
	Brazil	355	144.6	18.4	12.8		
	Equador	30	143.1	15.4	10.8		
	Philippines	64	134.9	3.4	2.5		
	Rhodesia	45	126.9	24.7	19.5		
V	Peru	66	109.8	1.3	1.1	9.5	9.1
	China (Taiwan)	65	94.5	9.9	10.5		
	S. Korea	154	83.7	5.6	6.6		
	Congo (Leopoldville)[e]	102	72.1	12.0	16.7		

[a]Period covered 1952-1959 (roughly).

[b]Source: Houthakker (41b, p. 221).

[c]I and II bracket countries are not shown here.

[d]Represents product of population and the number of years covered.

[e]Recorded as Belgian Congo in original source.

At any rate, the data suggest not only that savings exist in a subsistence economy, but also that they are related to income. Further, an effort must be made to determine the amount of savings with a view of how best it can be put into productive use. Since this will require survey studies in particular areas, possible steps in conducting a survey in Ethiopia will be considered in the second part of this study.

ANALYTICAL FRAMEWORK FOR THE DETERMINATION OF POTENTIAL SAVINGS WITH SPECIAL REFERENCE TO ETHIOPIA

The Need for Determining the Potential Savings in Ethiopia

Two considerations necessitate the determination of the potential savings in Ethiopia. These considerations pertain to the function of economic information in the planning of development programs and filling the gaps of empirical testing of economic theory.

In the last part of our review reference was made to the lack of empirical evidence on the determinants of saving in underdeveloped countries. This gap has rendered existing hypotheses applicable only to a limited range of circumstances. Whether taken as a test of hypotheses or as a criterion of the reliability of economic development plans, the value of such information requires little emphasis (41a, p. 712-733). Information, be it economic or non-economic, is a key to an understanding of intricate processes without which neither the theoretical "prognosis" of current problems, nor "reliable predictions and decisions" on matters of great consequences can be made (30,p6-8). In our particular case, growth in Ethiopia will be facilitated by more complete knowledge of her economic characteristics.

One of the numerous functions of economic information in planning is to provide a reliable assessment of the available resources. Notice that planning for economic development provides guidelines for the sequence of steps to be taken in the preparation, organization, coordination and execution of a set of objectives out of which the socio-economic progress arises through time (49, p. 212-222). Aspects of feasibility and efficiency in planning could thus be influenced by the reliability of economic information at hand.

Evidence is readily available that information on the amount and distribution of saving in Ethiopia is inadequate. Consider, for example, a report from Ethiopia's Second Five Year Plan, 1962-1967:

> When evaluating the sources and directions (uses) of investment no advanced studies have been available. Banking, budgetary investment, and foreign loan statistics had to be used as the only source for estimating the future origin and use of savings. This is probably why the personal funds and private savings seem to be underestimated (11, p. 515).

Primarily as a consequence of such data gaps, programs were formulated on the basis of estimates that are not reliable (11, p. 3).

In this connection, although Ethiopia has been engaged in such planning for about nine years, the absence of critical data is quite understandable. The acquisition of reliable economic information entails heavy expenditures for staffing the organizations with technical personnel and providing equipment; the time required for the systematic collection and analysis of the data is another factor. But what might have been overlooked is the important fact that the acquisition of economic information beforehand is an investment which will almost certainly pay for itself, as failures of planned actions have proved the least likely to occur when based on reliable information (23, p. 86-87).

Perhaps all we want to say by way of explaining the need for determining the potential savings in Ethiopia could have been rendered with greater erudition if stated in W. F. Stolper's view on the matter:

> Without overstressing the point, it is my feeling that the major obstacle to economic development from an economic standpoint is the lack of knowledge of facts, and it is therefore the main thesis of this paper that one of the main contributions to economic research consists in aiding the rational collection of data and the identification of our lacunae (41a, p. 712).

As to the steps to be taken for obtaining reliable measurement of the supply of savings in Ethiopia, a feasible economic model will be presented in the section which follows. The selection of a suitable statistical method of analysis will also be considered in that section.

In the remaining part of this present section it will be worthwhile to take a glance at the existing conditions and future prospects of population in Ethiopia. A consideration of population is vital because, if treated in a well-defined demographic analysis, it provides a rough assessment of: (a) the optimum size of population versus the optimum size of polity and economy; (b) the costs against the benefits of population growth or decline; and (c) the impact of migratory movements upon the cultural unity of the people and the rationality of the distribution of economic activities over geographic areas (41a, p. 301). This way of stating the matter simply acknowledges what need be done with respect to problems of population if and when both the opportunity and the competency permit at some future time. It should also be added that the matter of "optimality" in population with respect to polity and economy appears to be one of the oversimplifications in theoretical abstraction. Nevertheless, for our purposes the following summary may provide a somewhat imperfect picture of the situation in Ethiopia today.

Since there are no census data for the country, the available sources of information indicate that (15, pp. 192-196): (1) with an estimated population of about 22 million, and cultivable land of about 55 million hectares,[1] of which only about 7.5 million are cultivated, there is no immediate pressure of overpopulation; (2) consequently there exist great possibilities for substituting labor for capital to increase agricultural production and for improvements on or additions to development projects; and (3) owing to the low level of education (a literacy rate of about 5%) and lack of technical know-how, labor intensive production should have preferential treatment in the development of industry at this time. The table on the following page provides some data on population for Ethiopia along with comparative figures for selected African countries.

Economic Model and the Selection of a Suitable Statistical Method of Analysis

The analytical framework to be proposed in this section deals primarily with a systematic method of determining the potential savings in Ethiopia. We will therefore begin with specifying the objectives and redefining some of the variables to be incorporated in the model.

The objective is to estimate the potential personal savings by the major sectoral activities that contribute to Ethiopia's gross national product, with a view of specifying:

a) The amount of liquid assets held,

b) The marketable non-cash assets. Both of these asset forms may or may not be put into productive use; since the main objective is to

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[1] Another study by a consulting firm shows this figure to be 80 million hectares (10a, p. 85).

Table 3. Population and related data for a sample of African countries[a,b]

Country	Area (1000 sq. km.)	Population (mil.)	Non-indigenous[c] (%)	Population density (per sq.km)	Annual popul. growth (%)	Annual increase of per capita income[d] (%)
Ethiopia	1,184	21.80	0	18	1.6	2.8
Guinea	246	2.72	0	11	3.4	---
Nigeria	878	33.66	0	38	1.9	2.0
Liberia	111	1.25	0	11	---	---
Ghana	238	6.7	0	28	3.1	---
Congo (Leopoldville)	2,345	13.82	1	6	2.2	2.1
Kenya	583	6.46	4	11	1.6	3.5
Sudan	2,506	11.46	0	5	---	2.2
Tanganyika	937	9.08	3.5	10	1.8	3.4
Uganda	243	6.52	1.3	27	2.5	---

[a]The data refer to the period 1953-1960.

[b]Source: Abbai and Ligthart; Robinson; and Spengler (41a, pp. 8, 50 and 292).

[c]0 means less than 0.5%.

[d]Included in the table from ECA summary report on development programs in Africa (50, p. 98-99).

identify that amount of personal savings that could be available for investment, separation between the two may not be necessary.

Definitions

Saving is the surplus between current income or output and current consumption (8, p. 65). Similarly, we define income to consist of two components: (a) income from employment, and (b) other income, following Houthakker's recent study cited earlier in which he advises: "The important implication" of splitting income in such a manner is that the marginal propensity to save (MPS) out of income from employment "is much lower than that from property and entrepreneurship" (41b, p. 216-217).

The main explanation for the difference in the marginal propensity to save is that (a) savings from salaries and wages can be invested mainly through financial intermediaries like banks or insurance companies, while (b) savings on income from property and entrepreneurship can be directly invested. Since the return on direct investment tends to be higher than that made through intermediaries, it follows that the MPS from other income will be greater than from employment income (41b, p. 216). This explanation could imply that the MPS is also a function of the rate of interest on investible funds.

Assumptions

We will assume that saving is a linear function of income. This assumption appears to be safe on the basis of the Belai and Ligthart report noted earlier (41a, p. 18). It will be recalled that Houthakker's study was based on per capita income from national accounts figures for the sample of countries under consideration. In our case saving is to be measured from a survey of actual income (output), and this will involve a technical problem of converting saving held in kind into cash (8, p. 139).

The technical problem arises from the absence of price indexes for deflating both cash and non-cash marketable holdings. Seasonal variations in the price of commodities might not have been of great concern, for information could somehow be obtained at the time of collecting the data for necessary adjustments. Reports from the commercial and central National Banks could be used as guidelines for seasonal fluctuations of prices for major agricultural commodities at the capital city and its peripheral markets. Also the same prices could be applied to remote areas with adjustment for transportation costs. However, price fluctuations are said to vary with respect to localities, not so much because of transportation costs but because of the "insulation" of certain regions from the major marketing areas. This discrepancy arises because merchants take advantage of this "insulation" to enlarge differences in prices between localities, thus reaping "excessive" profits from these differences (34, p. 21). Having no standardized price index that could be applicable for all regions after adjustment from transportation costs, there appears to be no better alternative but to adopt local current prices for the measurement of the sample estimates.

The model   Since our objective is primarily to determine saving available for investment, the framework of the model will be a simple static one. For convenience we shall follow Haavelmo's design (16, pp.

75-91) with a slight modification to include Houthakker's advice to split disposable income into two components as explained above. Parenthetically, the special feature of Haavelmo's design was that it was a dynamic model which he applied to a time series data from statistics of United States gross national product for 1929-1941. The variables remain essentially the same, except for the division of income into two components and the replacement of the investment by the saving variable. All measurements will be in constant dollars.

Thus, let Y_{di} = disposable income per household, where i runs over the household of the sample.

Y_{ei} = component of Y_{di} from wages

Y_{vi} = component of Y_{di} from other income

$$\left.\begin{array}{l} C_{ei} = \text{consumption out of } Y_{di} \\ S_{ei} = \text{saving from } Y_{di} \end{array}\right\} \text{ if } \frac{Y_{ei}}{Y_{di}} \geq .50$$

$$\left.\begin{array}{l} C_{vi} = \text{consumption out of } Y_{di} \\ S_{vi} = \text{saving from } Y_{di} \end{array}\right\} \text{ if } \frac{Y_{ei}}{Y_{di}} < .50$$

In the linear relationships that follow, the α's represent the constant level (intercept) of consumption when income, as designated by the subscripts, is zero. Likewise the β's and γ's designate the marginal propensities to consume and to save respectively. These constants will be estimated with the use of least squares. While assuming either saving or consumption to be a linear function of income, no behavioral variables or random elements are included in the relationships.

1. $Y_{di} = Y_{ei} + Y_{vi}$

2. $Y_{ei} = C_{ei} + S_{ei}$

3. $Y_{vi} = C_{vi} + S_{vi}$

4. $C_{ei} = \alpha_e + \beta_e Y_{ei}$

5. $C_{vi} = \quad _v + \quad _v Y_{vi}$

6. $S_{ei} = (1-\beta_e)Y_{ei} - \alpha_e$, from 2 and 3. Letting $(1-\beta_e) = \alpha_e$, relation 6 becomes:

7. $S_{ei} = \gamma_e Y_{ei} - \alpha_e$

8. $S_{vi} = (1-\beta_v)Y_{vi} - \alpha_v$, from 3 and 5. Letting $(1-\beta_v) = \gamma_v$, relation 8 becomes:

9. $S_{vi} = \gamma_v Y_{vi} - \alpha_v$.

The results of relations 8 and 9 will thus provide a comparison between the marginal propensities to save from wages and other income.

The selection of a suitable statistical method of analysis depends, among other things, on three major considerations: (a) consistency; (b) relative efficiency, and (c) minimizing the cost of the survey without too much loss of accuracy in estimating the variables of interest (43, p. 173-184). As noted earlier and as can be seen from the model for the measurement of income and consumption to determine savings, it is envisaged that the survey will involve sampling by: (1) sectorial activities as classified in the Abbai-Ligthart report or similar manner, and (2) by the level of income within each sector. For instance in the agricultural sector which is the largest contributor to Ethiopia's gross national product, the productivity of farmland varies with the ranges of altitude - known as

Kola, Weina Dega, and Dega[1] - that are suitable for certain crops and livestock (2, p. 24). From the point of view of consistency, relative efficiency, and minimizing the cost of the survey, given the requirement for information, the suitable statistical method of analysis would be stratified sampling. Since proven methods for the computation of estimates as well as the optimum sample size in stratified sampling are to be found in Sukhatme (48, p. 83-136) and Sampford (43, p. 68-104) we will briefly consider the procedures and problems of conducting the survey.

Procedures and Problems of Sampling

The plan of the survey will require at least three stages of stratification. These are, stratification by regions, and the agricultural and non-agricultural sectors. Stratification by regions can be conveniently made on the basis of the existing political (administrative) division of the country into Provinces. Each region will be necessarily sub-stratified into provincial capitals, district towns, rural communities, etc. The agricultural sector will have substrata comprising the Kola, Weina Dega, and Dega areas of cultivable land described above. Parenthetically, one may also consider a further subdivision of agriculture into commercial and traditional farming, or into exportable commodities and production for domestic use. Likewise, the non-agricultural sector will have sub-strata under manufacturing, mining, utilities, transportation and communication, services, etc.

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[1]The Kola roughly refers to the land situated below 4,500 feet altitude above sea level; the Weina Dega comprises land situated between 4,500 and 7000 feet, and the Dega refers to the parts of the country over 7000 feet altitude.

Samples will be taken from cross-sections of employed workers or households in the cities, towns, rural communities, and farms. Thus, the individual employed worker or household will constitute the primary sampling unit from which data on personal income (Y_{di}) and consumption (C_{di}) will be collected. The selection of primary units and the allocation of sample sizes to sub-strata will be proportional to the number of people per sub-stratum for the following reasons: (a) to get a reasonable basis of comparison of income, consumption, and saving among strata (22, p. 333); (b) to avoid the possibility of overestimating savings due to variations in the number of persons (dependents) in households. Point (b) will take care of errors of underestimating consumption, hence overestimating saving, which can arise unless corrections are made for the composition of households (10b, p. 97). Therefore, some basis of proportionality will be necessary in figuring the probability that households with more members (dependents) will have a chance of entering the sample in proportion to their size. Noting once again, that the level of stratification and the size of the sample in each sub-stratum will be determined by considerations of cost and the given requirements for information, we will now consider the main problems of sampling.

As Richard Stone has cogently observed, it is extremely difficult to "detect the income, actual or imputed" that has been made by an individual or a firm through a search in primary records (47, p. 8). Experience in surveying also indicates that the major difficulty in extracting accurate information arises from one or a combination of the following errors (22, pp. 333-332):

1. The conscious or unconscious influence of the interrogator on the respondent when making the inquiry.
2. The deliberate withholding of accurate information by the respondent.
3. The respondent's inadequate knowledge of the exact information, and
4. The vagueness of the question which fails to convey the exact idea of the information desired.

Of these obstacles, the second one will be the hardest to overcome in rural communities of Ethiopia for the simple reason that people will be reluctant to divulge such personal affairs as family income and consumption expenditures. Needless to say, any successful survey cannot be conducted without the authorization and support by the Central Government to obtain the co-operation of local authorities and the communities. Among the things that need consideration as a matter of practicality are:

(1) The language to be employed in conducting the survey has to be Amharic, the national language in Ethiopia.

(2) Because of the low level of literacy all questionnaires have to be filled out by interviewers, and the more the interviewers are familiar with the areas they cover, the more effective will be their communication with the people.

(3) Lack of standardized unit of measurement for agricultural commodities is a technical problem. Even though the metric system is quite widely used in the cities and their outlying areas, traditional units of measurement vary from region to region of the hinterland. The same is true

for land.

(4) Perhaps more related to the cost of the survey, there is also the absence of information on the size of communities in particular regions, coupled with the lack of detailed maps with population density for marking strata boundaries.

It seems, therefore, that such matters of detailed operation can be best executed if treated in the light of existing conditions. There is good reason to be encouraged that technical difficulties can be alleviated because the necessary assistance appears to be available from the various government agencies actively engaged in development programs. Finally, a sample of questionnaire forms are presented on the following pages. These sample questionnaires labeled as Exhibits A, B, and C, were adopted from the documents of a multipurpose survey of the island of Crete, conducted under the Rockefeller Foundation (22, pp. 395-445).

Exhibit A: Household Information

NOTE WELL: The information contained herein (or any part of this survey) will be kept strictly confidential. It will not be disclosed to any government or private agency.

Name________________ Interviewer________________________

Province ______________ Date______________________________

Districe______________ Village___________________________
(Community)

1. How many persons (dependents) do you have in your family?__________

2. Please state relationship of dependents in the box provided below.

Relationship to Head of Family	Age	Sex	Living in house now Yes	No	Occupation
1. Head of family					
2.					
3.					
Etc.					

Exhibit B: Agricultural Production (Income) and Consumption.

NOTE WELL: Same as in A.

1. Is the household head a farmer? Yes_____________ No_____________

2. (a) What crops do you grow?_____________________________

(b) How much of each crop do you harvest per year?

Product (crop)	Quantity produced this year	Quantity sold this year	Quantity Used at home
.			
.			
.			
Etc.			

(c) Is the farmland owned?__________ Rented?__________________

(d) If land is rented, how much rent is paid?__________________

If farm is crop-share, how much is paid to landowner annually?

____

3. What is the size of the land farmed?_____________________

4. Do you raise or keep any farm animals? If yes, what kind of animals, and how many of each?

Species	No. of head	No. of animals born this year	No. sold this year	No. used at home
.				
.				
.				
Etc.				

5. Does the head or member of household render services to outsiders? If yes, specify kind of service rendered and state payment received for such services ______

6. Does the household receive services from outside? If yes, specify kind of service and state cost ______

7. How much of income is used for direct purchases (expenditures) of:
   a. Food (list main items) ______
   b. Clothing ______
   c. Medical expenses ______
   d. Utilities (water, electricity, etc., if any) ______
   e. Transportation ______
   f. Ceremonies (feast, wedding, funerals, etc.) ______
   g. Unforeseen (specify) ______

Exhibit C: Household Income and Consumption (Non-Agricultural)

NOTE WELL: Same as in A.

I. Sources of Income:

   1. How much does the family earn per month? ______
   2. How many of the family members contribute to monthly income? ______ Amount? ______
   3. Does this amount include money from other sources, such as earnings, gifts, pensions, rent from residential or rural property,

etc? How much? Specify ______________________________

____

4. What is the occupation (employment) of the members of the family stated in (1) and (2) adove?

   (a) Government service (Agency or Department)______________

   (b) Private business or services (specify)________________

   (c) Self-employed (in weaving, leather work, metal or silver smithing, other). Specify__________________________

   ____

II. Consumption Data:

How much of family income is spent on:

1. Food ____
2. Clothing____
3. Ceremonies (feast, wedding, or other unforeseen)____________ Specify____
4. Services (if any, specify)____________________________
5. Utilities (water, electricity, etc.)____________________
6. Transportation ______________________________________
7. Medical expenses ____________________________________
8. Ceremonies (feast, wedding, or unforeseen). Specify__________

   ____

9. Other, specify_______________________________________

THE ROLE OF A MORE ACTIVE FINANCIAL MARKET IN THE MOBILIZATION OF SAVINGS

Existing Conditions of the Financial and Credit Institutions in Ethiopia

The public services and facilities of formally organized credit and financial institutions are relatively recent in their development in Ethiopia. Ture, the use of money in the form of coins struck from gold, silver, and bronze goes as far back as the beginning of the third century A.D. Unfortunately, even though the use of both local and foreign currency has historical significance, barter and "primitive money" such as pieces of cloth, bars of salt or metals were said to be the prevalent means of exchange at the local market until as late as a few decades ago (36a, p. 64). There were customs posts (offices) at the main areas involving external trade; but the idea of formally organized financial and credit institutions such as trust and insurance firms, savings and loans associations is far more recent than the foundation of the first bank in the country, the then Bank of Abyssinia in 1905.

It may be noted that, while emphasis is placed on the background of formally organized financial and credit institutions, there had been traditional forms of cooperative associations which are still in operation today with some modifications. But the nature, purpose, and arrangement of these associations were so localized, so personalized and had so little permanence that their service to the public at large is limited. The three main forms of traditional associations, which serve both social and economic functions today and known as Eddir, Equib and Mahber (28, pp. 277-299), are discussed briefly below.[1]

The Eddir is a form of association primarily designed to provide its members some kind of mutual protection or insurance against the hardships of illness, accident, death, loss of property, and at times as a protection against unemployment. Partly the help from an Eddir may be provided in the form of financial assistance in the difficult time of a family that has lost its "breadwinner," as Levine has put it; or it may be rendered in the form of service (labor) by those members whose financial means are not enough to meet their obligations towards the association. Nowadays, members of an Eddir in the urban areas are required to pay a minimum fixed sum of money, and charity contributions constitute a good part of the common fund.

The Equib is a form of savings association. As such, contributions to an Equib are fixed, payable on regular weekly or monthly basis. Membership is largely limited to a closely knit, familiar group, with similar background or economic and social status. This is so because litigation is a difficult matter in the event of default by any of the members. The life of an Equib is limited by the number of persons initiating it unless renewed after the first round of subscriptions has been awarded to every member. The periodic subscriptions of an Equib are not kept in a form

[1]In some regions, particularly in the north, northwestern and central provinces, there existed a kind of farm cooperative known as Debo or Wonfel. This form of cooperation was distinct from the ones under discussion in that Debo (Wonfel) represented direct labor in return to similar services rendered during any part of the active seasons of farm or construction works.

of a revolving fund from which the members can borrow from time to time depending on their needs. Instead, the subscriptions collected at one time are advanced (awarded) to one of the members. The advance (award) is decided by lots which are cast every time subscriptions are collected. Obviously, a lot bearing the number or name of a member who once receives an advance is not entered in subsequent draws of lots until the first round of equal subscriptions has been awarded to each of the rest of the members. As such, the Equib partly represents a noninterest bearing loan to those members who receive subscriptions at earlier periods of the life of an Equib. A lot can be sold or bought as agreed by individual members, and very often such a transaction involves a fixed cost on the part of the buyer of the lot. Lots may also be willingly exchanged for favors among intimate friends.

The last form of association, which is gaining broader ground of regional scale and comprising members from all walks of life, is the Mahber. In its original, traditional sense, Mahber means a kind of fraternal association. Without necessarily meaning to dispute Levine's statements about the origin[1] of these forms of association, the Mahber, like the other two, originated from religious practices around the various establishments of the Orthodox Church. As such, in its original practices, the Mahber was primarily an observance of Saints' and holy days. In recent years, however, the Mahber has assumed a far-reaching significance comparable to what may be regarded as a citizen's welfare association or

[1]For our own edification, Eddir or Yager Eddir means "the custom of the country (land)." Equib too, (a derivative of the old Ge'ez) literally refers to some means of security, safety or assurance.

organization. The trend and significance in the development of this form of association has been summarized by Levine:

> ...the modern Mahber[1] is organized on the basis of regional... bonds and is concerned with problems of social betterment.... The basic idea behind all these Mahber is to make some contribution to the welfare of the provinces through projects voluntarily financed and organized by fellow-countrymen living in the metropolis. These projects have included construction of roads, schools, and hospitals; supplying books for schools, and provision of facilities for assisting inhabitants of the provinces who come to the city. Members of the various Mahber convene weekly or biweekly...to discuss their projects and make their financial contributions (28, p. 279).

Thus, the Mahber may have a dynamic role to play in the advancement of civic activities and welfare functions as well as a reinforcement of the bond of unity beyond the fading barriers of provincialism. We may only add that the Mahber was not primarily designed to promote individual initiative or entrepreneurial venture; but it does not appear unrealistic to hope that the objectives of the Mahber could be reoriented in this direction. All in all, at this stage of their evolution, the three forms of traditional socio-economic association lack the permanence, formality (legality) and universality in their public functions to be considerad as a part of an integrated system of an impersonal or nondiscriminatory financial and credit market.

Other than the traditional forms of socio-economic association, there also exist some "non-institutional" or individual sources for the supply of credit and finance. The supply of non-institutional credit and finance comes from wealthy merchants, professional money-lenders, and landlords.

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[1]Spelled as Mahebar in the source, but the transliteration consistently used in our study seems to be closer to the Amharic pronunciation.

The first two are known to operate throughout Ethiopia, while lending by the landlords is said to be limited to particular regions serving the agricultural population (34, pp. 12-19). There is no estimate of the proportion of the non-institutional to the total annual supply of loans and credits; but since it is believed to be well over 85 percent of the total supply to the agricultural population in similar Asian countries, it may be safely inferred to be no less than about 80 percent for Ethiopia, too (34, p. 12). Very often the arrangement of the non-institutional loan does not state the rate of interest and these charges are typically high. The loans or credits are made in the form of promissory notes, in which only the final amount of debt and the time of repayment to the creditor are stipulated. For instance, an agreement for a loan of $100 at a rate of interest of 10% per month for six months, states only the final amount of $160 as a debt payable to the lender at the specified time. Normally, the loans are made for very short periods of time, ranging from three to twelve months. But it may also be for as short a time as 10 to 15 days. Interest rates are known to vary between 24 percent per annum and an unbelievable high of 200 percent per six months, depending on the particular localities and the circumstances of the borrowers. As would be expected, the demand for such loans with so prohibitive costs comes from farmers, traders, owners of small shops or businesses, wage-earners, and salaried employees. The demand for loans at such prohibitive interest charges exists due to the absence of competition for two reasons. First the area may not be adequately, if at all, served by legally established and regulated institutions. Second, even if these facilities were available, the people either are not accustomed to the benefits of the banking facilities or the borrowers may not be able to meet standard requirements for security. Another aspect of the problem is that a good part of the loans is diverted to non-productive purposes, i.e. "extravagent consumer expenditures" on festivities, celebrations, which have to be met at all costs (34, p. 13). In this connection, it may be safely inferred that the demand for loans to meet customary obligations is inelastic with respect to interest rates. The section following this one will be devoted to suggestions about possible corrective measures for these and similar problems. Prior to that, there remain some brief comments to be made on the current situation of the banking system and the rest of the credit and financial institutions.

The State Bank of Ethiopia, established after the liberation from the Italian occupation, has been the single most important institution providing a wide range of commercial banking services to selected areas of the country. Although a state-owned institution, the Bank's "operation is entrusted to a board of directors and a governor appointed by the Emperor" (29, pp. 284-286). Among its broad functions as a major consultant to the Government on monetary policies, the State Bank of Ethiopia working in close cooperation with the Ministry of Finance was charged with the responsibilities of: (10c, pp. 83-85) (1) the issuance of currency and regulation of the money supply; (2) the control of foreign exchange with a view of maintaining a steady flow of external trade and the stability of the Ethiopian dollar on the international market; and (3) filling the gap of a stock exchange by providing buying and selling prices of the shares for the leading domestic companies. Even though there were very few branch offices of foreign banks in Addis Ababa and in one or two other cities, the State Bank has been active as the single most important agency for discounting commercial bills, providing line of credits or overdrafts of significant size, as well as providing services of saving and checking deposits from individuals, government agencies, and businesses alike. Although information on the present size of the Bank's branches is not available, prior to 1962 it had some eighteen branches in the country. In addition, it had two active offices in Khartoum, Sudan, and Djibouti, French Somaliland. For the same period it had about thirty correspondents in eighteen countries (29, p. 286).

Following the issuance of a new decree in 1963, the State B nk has been reorganized into the National Bank, the Commercial Bank, and the Development Bank of Ethiopia (2, p. 82). The Development Bank had actually been in existence since about the early 1950's having been formed as a merger of two other smaller banks, i.e. the Agricultural and the Commercial at Addis Ababa. Evidently, the purpose of reorganizing the existing banks is to lend to the system greater flexibility and wider service in providing short and long-term loans for agriculture, manufacturing industries and other businesses. A new Monetary and Banking Proclamation has also been enacted for the purpose of promoting the establishment of private commercial banks (34, pp. 22-24). Concurrently, a new Investment Bank of Ethiopia was established, along with the issuance of an Investment Degree of 1963 for the primary purpose of encouraging long-term investment through the relief of income tax, import and export duties (10c, pp. 94-96). Previously the establishment of two other relatively important institutions was underway. One of them was a Savings and Loans Association, intended to serve as a support for an urban low cost housing program. The other one was a kind of an agricultural credit and loan arrangement to support farmers in the improvement and/or acquisition of farm land and implements. Both institutions were initiated (some time between 1959 and 1961) through a joint effort of the Ethiopian Government and foreign assistance, with the hope that the two programs will eventually evolve as self-sustaining ventures. From information on hand it is not possible to ascertain the level of success achieved by these two institutions.

In addition to the banking systems outlined above, there are also a few financial intermediaries such as insurance firms and commission agents primarily serving the major areas that are engaged in external trade (10a, pp. 157-188). Even though the number of registered establishments fluctuates slightly from time to time, there were about 54 main and branch offices of insurance companies reported as of March, 1962, serving seven trading areas, out of which 26 were located in the capital city. The insurance coverages include life, fire, marine, and general accident (10b, pp. 120-121).

To sum up, the conversion of the economy from barter and "primitive" modes of exchange into a moneyed economy has been by and large carried out within the last fifty or sixty years. The reorganization of the banks supported by the State, the encouragement of domestic and foreign investment, and the promotion of the establishment of new commercial banks and financial institutions in the early 1960's as evidenced by the passage of the new laws will ensure the eventual development of a more active capital market. At this stage, however, the facilities and services of the banking system and the subsidiary financial institutions are concentrated in a few selected areas or activities which are more or less engaged in the handling of foreign trade. It will be recalled that about 90 percent of the population in Ethiopia are employed in agriculture contributing more than seventy percent of gross national product and almost all of the export commodities (11, p. 61). A small fraction, if any, of this most important agricultural sector of the economy is serviced by the existing financial institutions. Even though by and large the economy has been converted into a money economy, some thought must also be given to the grim fact that a small percentage of the population in the agricultural sector has access to the banking services much less to modern debt instruments. To draw upon the potential supply of savings on the one hand, and to meet the growing demand for investment funds, on the other hand, greater efforts will be needed for the rapid development and expansion of the financial market.

Some Needed Measures and the Role of a More Active Financial Market to Mobilize Savings in Ethiopia

The two points of primary concern in this section are: (1) the identification of the basic problems that make the potential savings in Ethiopia "abortive or non-productive" (25, p. 42-46), and (2) possible measures for the mobilization of savings. Emphasis will, therefore, be placed on the role of a more active and expanded financial market. Measures that may be of some help in the development of the agricultural development will be emphasized. Special attention to agricultural development does not imply that the "non-agricultural" sector can be ignored. On the basis of existing conditions, any clear delineation between the agricultural and non-agricultural sectors in Ethiopia may seem unrealistic. But, both from what was shown in the Abbai-Ligthart Report (p. 25 this thesis) as well as in an analytical framework (42, pp. 180-186), the development of agriculture has to be viewed with the following items in mind: (1) the development of agriculture is contingent upon its complementarity with the non-agricultural sector(s). This means, to sustain a steady growth in agricultural production there must exist (a) an effective demand in the non-agricultural sector which will be capable of absorbing the increase in agricultural production; (b) the non-agricultural sector will have to proceed at a comparative rate of growth in the exploitation of the natural resources that are not directly utilized by the agricultural sector but are needed in the form of capital equipment by the latter; and (c) the surplus of labor that will be released from the agricultural sector, as it becomes more capital and land intensive, will be absorbed by the non-agricultural sector. (2) All this leads to a very important corollary which is the assumption that the allocation of resources within and between the agricultural and non-agricultural sectors will be determined by economic considerations. That is, the principles of marginal productivity and marginal rate of substitution will (somehow) be controlling in the flow of factors of production, namely land, capital and labor within and between the sectors (42, pp. 195-199).

The various obstacles to the mobilization and efficient allocation of a country's resources, savings included, have been conveniently summarized in a paper by John Blackmore entitled "Creating Needed Institutions" (21, pp. 143-154). Among the list of institutions and structural changes essential to the development of Ethiopia are: (1) improvement in the land tenure system which "tends to be the top log in the jam that blocks agricultural development" (21, p. 145); (2) institutions for the collection, preservation, and dissemination of technical knowledge; and (3) institutions for a modern monetary economy. The conditions of the financial institutions have already been discussed to require no more comment other than final suggestions. On the problems of land tenure and technical knowledge in Ethiopia we can only make the following brief observations in passing.

Land reform embraces a wide range of measures for the improvement on "the structure or relations among men with respect to their rights in as well as their uses of land" (39, p. 2-4; 4, p. 336). A detailed description of the existing conditions of land tenure in Ethiopia is to be found in a recent unpublished Master's thesis by an Ethiopian student (33). For our purposes, we will note the inhibitive effects of the "defective" institutional structure in Ethiopia on the productivity of labor (15, p. 195). Here is a concise description of the "atmosphere of insecurity, uncertainty and arbitrariness" (14, pp. 313-315) under which the Ethiopian farmers "traditionally" worked:

> ...The peasants of our country are in truth hard working and untiring in working in the countryside; it is the military who are lazy and know nothing except to mock, oppress and rob the poor...
>
> From the moment when the fruit produced by their sweat is given to the soldiers, when the best of the animals which they

have raised with so much care are made to fatten the feudal nobles, when the mules and horses which they have kept to exchange for good cows or plough oxen are selected and seized by the local authorities, from the moment when, on returning home from a hard day's toil, they find their house commandeered by soldiers, from that moment they find no use in a will to work (36b, p. 49).

Perhaps this historical note on the past injustice and malpractice by the ruling authorities may appear an unfair reflection on the moderate measures of reform introduced prior to and especially since the early 1930's. The farmers and the common laborers were thus legally emancipated in 1930 from their obligation to render direct services over and above the rent and tribute they used to pay to the landlords and the hierarchy of authorities. It was not until after the restoration that the Ethiopian peasants had to see greater relief from "the multiplicity of taxation" even by the central treasury (36b, pp. 41-47). The latest promises made through a "Throne Speech" in 1962 to improve the defects in land ownership rights, tenant and landlord relationships, including a tax reform have not materialized so far (10b, p. 54). In the final analysis, as "owner equity is the real backbone of financial strength" for getting started in any line of business, so is the security in the ownership of land and the legal protection of tenancy for the farmer to be able to make a steady income, to save or to borrow both in good and bad times (40, pp. 5-6). In the throne speech just cited, it was declared that the future "growth, stability and prosperity" of Ethiopia will depend on the "progressive implementation" of land reform programs which would require many years of vigorous and conscientious effort. But it is hard to tell how soon the "first steps of land reform" (10b, p. 24) will be put into law as promised nearly four years ago.

Turning to the dissemination of technical knowledge, the idea of demonstration or pilot projects to acquaint the adult, non-literate rural population with better methods of production and better ways of living is not new in Ethiopia. It has been over a decade since demonstration projects for crop production, coffee plantation, livestock improvement, health and sanitation, and various community development programs were initiated (2, p. 70). But what appears questionable (15, pp. 199-201) is the intensity and continuity of effort on the programs. The Second Five Year Plan states straightforwardly that "the community development program has not gone beyond the blueprint stage" (11, p. 21/1). The obvious reason is that the collection, preservation, and dissemination of technical knowledge is necessarily inseparable from the level and rate of advancement in formal education as well as the limitations of transportation and communication media (41a, p. 28-31). Needless to say all these require heavy expenditures. Hence, from here on we will focus attention on the role of a more active financial market in mobilizing savings. Our discussion will be more fruitful if preceded by a clarification of the general conception of the financial market.

By financial market we mean that aspect or part of economic activity dealing with or arising from the continual transfer of funds between lenders and borrowers. Such transfers of funds support expenditures on non-productive consumption, but our concern is with transactions for purposes of investment which may be defined as "the possession of assets for economic return" (42, p. 174). Further, the financial market is a composite of submarkets whose homogeneity depends on the "interest rate differentials between loans" bearing varying maturities or life of repayment and risk (13, p. 421). Among the various "arbitrary" categorizations of the financial market, the two frequently employed subdivisions are (46, pp. 184-186; 23, pp. 355-358): (1) the money market, dealing with semi-impersonal or standardized forms of short-term, highly marketable claims, - i.e. loans or debts which are readily convertible into money; and (2) the capital market, dealing with transactions in long-term debt instruments such as government securities, corporate bonds, and equity or common and preferred stocks. Although this rough subdivision helps to define the line of specialization within the financial market, it should also be noted that the subdivision does not necessarily draw a fine line of separation nor exclude the interdependence between any of the sub-markets. In addition, the financial market is subject to the control and regulation by legally instituted government agencies such as central banks or the treasury to protect and "promote the interest of the general public" (46, pp. 215-217). From the point of view of feasibility, we may perhaps underscore the fact that the functioning of a capital market to any appreciable degree in a subsistence economy such as Ethiopia's might appear unrealistic. However, since the matter of feasibility is dependent on the probable increase in the demand for consumer and durable goods, from observations made in the previous section there is ample evidence to anticipate such an increase as envisaged in the long-term development plan for both the agricultural and industrial sectors. We will now proceed with the main suggestions.

The suggestions we have in mind pertain to three interrelated courses of action. It must be noted once again that these suggestions may not contain entirely new ideas, but they will be helpful in that the intensity and continuity as well as coordination of public and private effort in Ethiopia appears to be lacking. The first suggestion deals with the need for increased public participation in the drive to create a more active financial market. The second item relates to the social overhead costs in laying down the foundation of needed financial institutions. In this connection a simple hypothetical example will be given as an illustration of the relative gain or loss that would be realized (suffered) from an increase in state financial support. The third and concluding consideration, which is hardly separable from the first two, will deal with the question of skilled, technical and professional personnel. For all practical purposes these modest suggestions will be made with due recognition of the agricultural and community development programs envisaged in the Second Five Year Plan.

Increased participation by the State in the creation of an active financial market as a means of mobilizing domestic savings and reducing the cost of investment funds for agricultural as well as industrial development is quite an old idea. In large parts of Europe and in Asia the creation of stable, active money and capital markets was made possible largely through state participation in paving the way for the emergence of self-sustained competitive private ventures by various forms of cooperative societies (38a, pp. 30-49; 38b, p. 421-443). Even in the United States, where traditionally banking and credit institutions developed through commercial and trading interests (46, pp. 81-84), the growing trend and influence of Federal credit and lending institutions are said to have

> ...aided in the creation of more uniform rate patterns by tying widely disparate and poorly related money markets into a single national money market. Federal lenders and federally sponsored or encouraged lenders have proliferated, being tied together in vast lending chains, and being underwritten, in one way or another, by the United States Treasury... (13, pp. 421-422).

It would not be elaborating the obvious if we take a glance at some of the manifold contributions of financial institutions. First and foremost, the promotion of financial institutions in Ethiopia would be to cater to the needs of savers and borrowers, however large or small. The significance of this line of thought may perhaps be more apparent if viewed in the light of Leibenstein's "critical minimum effort thesis" which largely rests on pooling society's resources in order to capitalize on its "income increasing forces" (27, pp. 187-193). The rationalization of retarding the emergence of needed institutions on the basis of who can save in low income areas, or who can make use of such institutions (34, pp. 14-15) would not be the way to break up the deadlock of the vicious circle of poverty. The fact that the largest proportion of the supply of savings comes from the high income earners, representing the smallest fraction of the population both in developed (24, pp. 152-153) and underdeveloped countries (7, p. 64), goes without argument. But such an argument does not necessarily imply that the other important functions of financial institutions would be overlooked. To mention a few, (1) the utility as well as the security which savers and borrowers can equally acquire from legally protected financial market will be widely spread. (2) Given an effective monetary and fiscal policy for the stabilization of the financial market (13, pp. 426-429), the expansion of lending institutions will (a) reduce the cost of capital by decreasing the risk and uncertainty of default in the repayment of debts; (b) increase the availability of capital by overcoming the liquidity preference for idle savings, to say little of the money creating function of the financial institutions; and (c) non-institutional money lenders will be forced to enter the market on a more competitive basis. We would not have dwelt on these rudimentary notions of the functions of financial institutions had there not been enough signs of official opposition to the idea of expanding the existing financial institutions in Ethiopia. We shall make a brief comment on the official lines of thought. But in doing so we would like to make it plain that such a comment should not be construed to be an attack on the National Bank's monetary policy which has helped to guide the economy with a reasonable degree of stability (10c, pp. 83-85).

In assessing the relatively high demand for short-term laons and noting what needs to be done to reduce the prohibitive interest rates charged by non-institutional money lenders, the National Bank acknowledges that "the spread of knowledge of the services of commercial banks" should be considered as "a target of an energetic and immediate action" (34, p. 19). However, when it comes to the promotion of these needed institutions the Bank appears to reverse what it advocates to be a necessary public measure. For instance, it opposes the setting up of more banking facilities by advising against what it calls "greater liberalism" and "mushrooming of commercial banks" (34, pp. 18-19). Liberalism in the sense of making credits and loans available for extravagant, non-productive purposes is out of the question. No one in his right mind would push the mushrooming of commercial banks in the vast uninhabited areas of the country either. But it is the case that quite a number of the provinces did not have even a single branch office at their capital cities before the 1960's. Even today most, if not all, of the sub-provincial towns do not have any facilities. The way to the establishment of commercial banks by private ventures also appears to be blocked by tight requirements for minimum paid in capital shares. According to the regulation passed by the National Bank (pursuant to the Monetary and Banking Proclamation of 1963), "No bank shall be licensed with paid in capital shares less than Eth. $2.0 millions" (34, p. 24). In contrast, the requirement for national banks (by the Federal Government) in the United States ranges from "$50,000 for cities up to 6,000 in population, to $200,000 for cities with more than 50,000 population" (46, p. 109). Further, for an institution which was established with state support not so much for making profits as its public services in promoting and strengthening the financial market, it sounds untenable to disavow itself from taking any part in the effort of "inducing the people to be more economically minded" (34, p. 17). Certainly the costs of setting up branch banks through government expenses coupled with the shortage of trained personnel are matters which nobody should fail to recognize. But consciousness of social overhead cost alone, even in areas of activity such as commercial banking, which some assert should be left to private venture, is not sufficient. Under the conditions that now prevail in Ethiopia, the only comprehensive vision and guidance, by bearing the burden of indivisibilities in organization, the long gestation period for the fruition of high social costs, is vested in the Government (38a, p. 41). It is well known that decreasing the interest rates of non-institutional loans by legislative measures will only drive away the money lenders. "Without increases in institutional or public assistance," therefore, "growth in the supply of capital and the reduction in its cost" cannot proceed at any appreciable pace, if at all (21, p. 166). Perhaps we need to be more clear with the point we wish to make.

At the outset our suggestion for the creation of a more active financial market was centered on increased state participation rather than on complete takeover of the whole area of responsibility by the state. It is still so, and the ground work appears to have been done, at least on paper, for the emergence of the needed private institutions through programs of farmer's cooperatives (11, pp. 6/12-17). Among the major objectives of the farmer's cooperatives outlined in the plan are: (a) marketing of agricultural produce to stabilize the income of farmers by removing seasonal and locational price differentials;[1] (b) to help farmers improve their productivity through demonstration projects and the technical advice by extension agents; (c) to provide credit, supplied by the Development Bank, for the acquisition of improved famm implements, or modern machinery and equipment for farmers who can pool their resources on small-scale cooperative basis. The emphasis in this movement is on self-help, democratic management and voluntary membership, economic interest being the main motivatin force. In all, about 20 large-scale (regional) farmer's cooperatives were to be established in the Second Five Year Plan. A few steps seem essential to intensify the drive of organizing the farmer's cooperatives on a "multi-purpose" basis as they are intended to be.

[1]In this connection, the "installation of modern grain storage facilities" was placed on the responsibility of the Grain Corporation. The initial facilities at seven distribution centers had a capacity of 18,000 tons of grain; but a contract was said to have been let by the Corporation around 1963 to expand the storage facilities to a capacity of 200,000 tons of grain (10b, p. 63).

The allowance of membership on voluntary basis and the direct control of management by the cooperatives will imbue the democratic spirit of private venture in the cooperative movement. It will avoid the bottlenecks of bureaucratic control or official domination and the inefficiency that may develop as the institutions will grow. This has been well taken care of in the cooperative programs in Ethiopia. But at this early stage of organization and with the simple fact of the insufficient number of technical and professional personnel, experience in some other countries has shown that it "would be pointless to ignore the degree of official stimulation, guidance, financial support and administrative participation" by government in setting up the cooperatives (38b, p. 229). Voluntary membership and management by elected officers should be encouraged; but trained managers are scarce. Because of this shortage, it has been necessary to employ voluntary or part-time managers. This arrangement has been the real problem in activating the traditional associations, especially the Mahber, in Ethiopia. Touching upon the Mahber, more official encouragement and guidance will be needed to link up the Eddir, Equib and Mahber of the urban areas with the cooperative movement in the rural communities.

In the main, increased state assistance and/or participation is needed to overcome the above mentioned stumbling blocks by: (1) providing legal and technical counsel as well as administrative guidance (support) for the establishment of the cooperatives on a footing that gives them the form and character of lawfully instituted organizations. This includes defining their liability, specifying their functions and purposes in a manner that helps the quick spread of the movement, the terms and/or conditions on which credits and loans will be made available, their relationships with local or central authorities in matters of supervision, regulation or assistance. In some countries, for instance in Switzerland (38a, p. 42) and in the Philippines (38b, p. 236), the State's role in rendering technical and legal counsel is facilitated by the enactment of uniform laws or standard regulations for cooperative banking and credit institutions. A feature almost universal to the movement of cooperative banking in other countries is that it was given the full financial, technical and organizational backing of state owned central banks or credit agencies. This brings us to (2) increased state assistance in providing the initial operating capital. The form of the State's financial assistance in raising the working capital varies in several of the European and Asian countries. It may be in the form of contributions, loans or advances, subsidies, direct-subscription to the shares of capital or treasury appropriations, and tax reliefs (38b, pp. 236 and 241). In some countries state assistance in working capital was relatively small, compared to the high percentage of deposits from members once the cooperative banking is set up to operate as a going concern. For instance,

> A relatively strong feature of Japanese cooperative banking is the high percentage of deposits to total working capital. Over 70 percent of the working capital is derived by way of deposits from members. Deposit collection is encouraged in many ways as in Germany. Members are approached at their own homes periodically and their savings are collected. There are many savings clubs and savings days to encourage the thrift habit... (38b, p. 237).

The social benefits that can accrue from increased state material aid to activate the financial market in Ethiopia may not be easily quantified. However, from the point of view of increasing the utilization of savings, ie.e. the relative gain in the mobilization of savings and the resultant increase in employment and productivity due to the availability of investment funds at reduced costs, the references cited above as well as other analytical studies (33, pp. 358-375) provide convincing evidence of the benefits to be realized. Here is a simple hypothetical example (41a, pp. 371-373) to illustrate the advantage of increased state financial assistance. Although the illustration is based on subsidies to investment projects, the indirect influence of the state on the loanable funds can be easily linked to a direct support of financial institutions.

Let us suppose that at the rate of interest of 10 percent the supply of and the demand for loanable (investible) funds is 400 monetary units (M.U.). Suppose, it was decided to increase investment, let us say, by 25 percent - i.e. 100 M.U. Given an interest-elastic supply and demand market for loanable funds, the supply rate of interest would rise while that of the demand would fall; say to 12 percent and 8 percent respectively. To encourage investment and employment by raising the investible funds, the government intends to subsidize the interest rate differential with funds which it can use in direct investment. That is, government subsidies in the amount of 500 (.12 - .08) = 20 M.U. will be needed. This means, other things being equal, the increase in loanable funds would raise investment by 5 times that which would have been accomplished through direct investment of the 20 M.U. Assuming further that the subsidy is made on the condition that part of the return on the investment of the 500 M.U. be reinvested in an amount no less than the 20 M.U. subsidized, the net effect would still be greater investment and employment. We will comment on the oversimplification of this example later, but now we will use a simple mathematical formula (18, pp. 384-386) to show the net result.

Let

G_o = government funds available for subsidy at time 0.

G_t = compound value of government subsidy at time $t(t=0,1,2,\ldots t)$ if invested directly.

L_o = (induced) total investible funds to be subsidized by government (by bearing interest rate differentials)

L_t = compound value of L_o at time t,

s = supply rate of interest on L_o

r = demand rate of interest on L_o

e = expected rate of return on capital, such that $s \geq e > r$ (throughout t).

From the foregoing assumptions and definitions we have the following relationships:

1. $G_o = L_o\ (s-r)$

2. $G_t = G_o\ (1+e)^t$ or,

   $= L_o\ (s-r)(1+e)^t$ from (1).

3. $L_t = L_o(1+e)^t + G_o(1+e)^{t-1} + G_o(1+e)^{t-2} \ldots$

   $+ G_o(1+e)$, by the assumption that part of annual

returns on L_o equal to G_o will be reinvested, or

$$L_t = L_o(1+e)^t + L_o(s-r)(1+e)^{t-1} + \ldots + L_o(s-r)(1+e)\ .$$

4. $\frac{Lt}{Lo} = (1+e)^t + (s-r)(1+e)^{t-1} + \ldots + (s-r)(1+e)$

5. $\frac{Gt}{Go} = (1+e)^t$

6. $\frac{Lt}{Lo} > \frac{Gt}{Go}$ since the right hand side of relation (4) is greater than that of (5). Multiplying both sides of the inequality in (6) by $\frac{Lo}{Gt}$ gives:

7. $\frac{L_t}{G_t} > \frac{L_o}{G_o}$ which would be the case even if part of all of the annual returns on G_o were also assumed to be reinvested.

The major oversimplifications of this hypothetical example are: (1) It is based on the implicit and unrealistic assumptions of perfect foresight and constant returns to capital; (2) problems such as inflation, the setting up of priority or criteria of subsidizing private investment were assumed away; and (3) long-term investment at this stage of development will not meet the short-term needs of small savers and borrowers in rural communities as much as the financial institutions will do (42, p. 192).

If the services of the credit and financial institutions in catering to the needs of potential savers and borrowers be considered as part of the social services program, then stepping up state assistance to promote banking and intermediary systems appears to be a matter of great conern. In addition to the case in Japan cited earlier, savings in Indian rural areas were said to have doubled between 1951-1955 (41b, p. 211) as a result of a savings campaign through the issuance of: (a) 12-Year national plan savings certificates; (b) 10-year treasury savings deposit certificates; (c) 10-year annuity certificates; (d) post office savings bank deposits; (3) cumulative time deposit scheme; and (f) gift coupons. Needless to say, such an advance in so short a time could have not been possible without increased state aid in creating and strengthening the needed institutions. This brings us to the question of trained or technical personnel with which to run the institutions.

The scarcity of trained personnel and the inadequacy of formal education in Ethiopia today, both at the lower and higher levels of institution, goes without saying (12, pp. 334-335). What we would like to note briefly is that the services of the available trained Ethopians could be used more efficiently. Be it in agriculture, business, the social or pure sciences

> Experts have noted that trained...graduates do not turn to practical [work in their field of training]. This is true and it is a recognized loss to the whole nation. But...graduates do not turn to practical work...not because...they are attracted by city bureaucratic life, but rather there do not exist the necessary facilities....They lack credit to purchase land, equipment, etc., consequently the only place to turn to is government employment (34, p. 9).

Thus, though there is little question of the shortage of skilled manpower to meet the demand in most fields of activity, there are still enough trained Ethiopians for the purpose of staffing the needed financial institutions. Apparently, the problem has been one of misallocation as much as the scarcity of the services of trained personnel. As Donald Levine has observed:

> The burden of the [trained Ethiopians'] frustration in work has not been to locate employment, but to find meaningful employment.... The fundamental problem has been that the institutional system has been insufficiently modernized to make proper use of the individuals who had acquired specialized training....Many of the technical intelligensia have found suitable positions....Many others, however, have been demoralized by the experience of being...saddled with purely administrative responsibilities even when initially placed in a technical job....(28, p. 200).

Increased state participation in this drive of vitalizing and expanding the financial market will, therefore, be not only a helpful instrument for mobilizing potential savings, but also will open up opportunities for efficient use of resources in other areas of private venture. Up to this time, Ethiopia may be considered to be fortunate because it has not come yet to the point where her trained citizens would be leaving the country seeking better opportunities abroad as is happening in some other countries

(41b, p. 364-365).

As a closing opinion on the role of a more active financial market to mobilize savings in Ethiopia and the need of increased state participation in this endeavour, two instances of development may be briefly cited in support of our line of thought. One of the instances is education. A generation back, no one had the desire to send children to modern schools until the benefits of education could be recognized. The other example of the immediate impact of intensified state participation in private venture on Ethiopia's development is seen in the initiation of a national airlines service about twenty years ago. To what extent the existing system of inland roads could have linked the remotest areas in the country with any of its other parts, indeed with the rest of the world, is hard to reckon if the beginning of the airlines services had been deferred until the hinterlands could support the venture. Still more directly, at the time the first bank was established, we find such reports on the general awareness of the masses in contrast to what obtains today where banking facilities are available: "...Many a yokel believed that he always withdrew the identical dollars he paid in, that in fact when he paid his dollars the bank set them aside to be withdrawn by himself exclusively" (36a, p. 99). This rather derisive observation is quoted at this juncture as a lucid explanation of the long years that it would take to break customary habits unless the necessary institutions are introduced sooner though the costs may seem too great to bear.

SUMMARY AND CONCLUSIONS

The main objective of this study was to explore some helpful steps or measures to mobilize the potential savings in Ethiopia's subsistence economy. The discussions leading to the suggestions for the steps to be taken were centered on two main areas of investigation: first, we looked into the theoretical grounds and empirical findings on the determinants of saving in a subsistence economy. Second, an attempt was made to identify the factors or causes which impede productive use of savings.

The illusiveness of terms such as subsistence have partly contributed to the mistaken view that savings in those economies are so insignificant as not to deserve great attention. That the amount of saving depends on the level of income seems indisputable. Although behavioral patterns of consumption or thrift are recognized as having some influence on the level of savings, to what extent these patterns may vary with custom, tradition, belief, etc., is not yet conclusively established. As to the definite amount of savings in a subsistence economy, the rough estimates from studies on the national income accounts of a few countries presented in our review provide an ample evidence that the level is significant. In view of the gradual reduction in the availability of capital from external sources, coupled with the adverse movement of the terms of trade for countries which are producers of primary commodities (41b, pp. 46-48 and 424), greater effort will be needed to utilize the domestic savings which are known to exist in unproductive forms. A reliable identification of the sources and the assessment of the amount of savings would be the starting point of a planned action to mobilize and channel savings into productive uses. A part of this study treats some of the problems associated with data collection and analysis in conducting a survey suggested for Ethiopia. The execution of the proposed survey of savings in Ethiopia will be a stepping stone towards the implementation of the necessary measures for mobilizing savings in that country. Noting the fact that agriculture represents the largest, if not the entire, base of employment and production in Ethiopia at the present time, the main steps that were considered essential for mobilizing savings are outlined below.

Among the major obstacles to the mobilization of resources for agricultural development, we had noted that defects in the structure of land tenure stand at the top of the list of needed institutional reforms. Inasmuch as the level of saving is inextricably connected with the level of income, the increase in agricultural productivity or income is dependent on the ability of farmers to transfer, dispose, lease or mortgage their rights in the ownership and use of land. Recognizing the complexity of land tenure problems and the importance attached to the need of a speedy land reform program in Ethiopia, we may add here its sociopolitical implications to what we have already stated in passing: To Arthur Young "the magic of property turns sand into gold", and in Thomas Hart Benton's view:

> Tenentry is unfavorable to freedom. It lays the foundation for separate orders in a society, annihilates the love of country, and weakens the spirit of independence. The tenant has, in fact, no country, no hearth, no domestic altar, no household god. The freeholder, on the contrary, is the natural supporter of a free government....(4, p. 373-374).

Increased state participation in the creation and expansion of an integrated financial market has occupied the center of attention in the suggestions that were advanced in the last part of this study. This proposal stems from a realization of the fact that the lack of material resources, of which savings constitute only a part, is not the sole impediment to economic development. Were it not for the deficiency in technical know-how or scientific advancement, and defective institutional structures, Ethiopia would now stand in a far better rating economically. Most writers ascribe to her potential resources "with monotonous regularity" as "the granary of the Middle East" (14, p. 321). In view of the low level of adult literacy, it was argued that the Government should play a more active role in introducing new ideas, in fostering "technological creativity" and promoting competitive venture by shouldering the indivisibilities of large-scale organizational and financial burdens. While stressing increased state participation in the creation and expansion of an integrated financial market, we also looked into how state participation along with private effort could be effectively applied in sharing the social overhead costs involved.

The creation and expansion of an integrated financial market has proved to be an effective instrument for rapidly spreading among the illiterate masses the utility and security which savers and borrowers equally acquire from legally protected and regulated institutions. By catering to the everyday needs of all savers and borrowers, irrespective of the size or amount of transactions, the financial market could serve a double purpose in that it will acquaint or educate a tradition-bound people as well as provide needed services to a large segment of the isolated yet potentially productive areas in the country. Further, since legislative measures alone against non-institutional lending practices will reduce rather than improve the supply of loanable funds, we reiterate the contributions of an active financial market in some detail. The expansion of a legally integrated financial market will: (i) reduce the cost of capital by decreasing the risk and uncertainty of default in the repayment of debts; (ii) increase the availability of capital by overcoming the liquidity preference for idle saving, while the side effect of the money-creating power of financial institutions (duly regulated to avoid problems of inflation and bankruptcy) could not be overlooked; and (iii) non-institutional money lenders will be compelled to join the financial market.

An expedient and low-cost approach to the creation and expansion of the financial market is through the furtherance of a cooperative movement in banking, mutual insurance schemes, loans, and savings associations, etc. Thought must also be given to the coordination and/or integration of the largely urban-based traditional associations - i.e. the Eddir, Equib and Mahber with the rural, agricultural cooperative movement. What appears to be urgently needed in this drive in Ethiopia is increased financial, legal, technical or organizational support by the state in the setting up of the various associations on a footing of going concerns. Although no specific probabilistic limit of confidence could be set on the basis of a priori judgment, the chances appear highly favorable that the benefits from the creation and expansion of these needed institutions will by far outweigh the social overhead costs in providing the initial operating capital.

Finally, the scarcity of trained people who can run the financial institutions has been observed to be one of the limiting factors. However, it was also noted that the limitation of existing opportunities has caused many well-trained persons to be employed in work which is not entirely consistent with their training.

We have now to bring this modest exercise to a close with these remarks. As previously noted from Professor Stephen Enke's observations, "bewailing" the low level of savings in low-income countries and ascribing to them the slow pace of progress oftentimes serves as an excuse of a good deal of institutional reforms and social actions that are wanting in order to make use of the available resources. Better prospects for progress lie in store if the leaders are willing enough to share the powers as well as the responsibilities of government with their people and feel more disposed, in Barbara Ward's words, to "fully absorb the sheer scale" of achievement that man can aspire and has in fact attained (52b, p. 10).

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